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No. 85-411

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

VIVITAR CORPORATION,
Petitioner,
v.
UNITED STATES, *et al.*,
Respondents,
47TH STREET PHOTO, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMICUS CURIAE K MART CORPORATION IN OPPOSITION

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QUESTION PRESENTED FOR REVIEW

Whether the United States Customs Service regulations relating to the importation of genuine trademarked goods manufactured overseas by or with the authority of a United States trademark owner are reasonably related to Section 526 of the Tariff Act of 1930.

PARTIES TO THE PROCEEDING BELOW

In addition to the parties listed in the Petition for a Writ of Certiorari, K mart Corporation participated as an amicus curiae.

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BRIEF OF AMICUS CURIAE K MART CORPORATION IN OPPOSITION

To the extent required, amicus curiae K mart Corporation ("K mart") incorporates by reference the "Opinions Below," "Jurisdiction," and "Statutory and Regulatory Provisions at Issue" sections of the Petition for a Writ of Certiorari filed by Vivitar Corporation ("Vivitar").

STATEMENT

K mart submits this brief [1] in opposition to the Vivitar Petition for a Writ of Certiorari and urges that this

[1] This brief *amicus curiae* is filed with the written consent of the parties pursuant to Supreme Court Rule 36.2.

Court not reexamine or modify the long-standing Federal policy embodied in Customs Service Regulation 19 C.F.R. § 133.21. That regulation permits the importation of trademarked goods manufactured abroad by or under the authority of United States trademark owners such as Vivitar. Such goods are frequently called "parallel imports" or "gray market" goods.

INTEREST OF K MART

K mart is a Michigan corporation with its principal place of business in Troy, Michigan. It is a mass merchandiser which operates more than 2,000 discount department stores throughout the United States. K mart offers consumers brand-name and private label merchandise at substantial savings over the retail price suggested by trademark owners and manufacturers such as Vivitar.

In the regular course of its business, K mart purchases substantial quantities of parallel imports. Since the trademark owner generally sells or authorizes the sale of such goods abroad at a much lower price than it sells identical goods in the United States, such parallel imports represent an important source of supply to discounters such as K mart. K mart has a vital economic interest in the continued viability of 19 C.F.R. § 133.21, inasmuch as its important sources of supply will be threatened with extinction if Vivitar's position prevails.[2] Multinational trademark owners such as Vivitar generally refuse to sell their trademarked goods to discounters such as K mart and also purport to forbid their licensees and

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[2] K mart's interest in preserving these sources has been recognized in other major proceedings involving parallel imports where K mart has intervened or participated as an amicus. *See Coalition To Preserve The Integrity of American Trademarks v. United States*, 598 F. Supp. 844 (D.D.C. 1984), *appeal pending*, No. 84-5890 (D.C. Cir.); and *Olympus Corp. v. United States*, CV-84-0920 (E.D.N.Y. Aug. 22, 1985), *appeal pending*, No. 85-6282 (2d Cir.).

distributors from selling to discounters such as K mart—all as a part of an effort to maintain artificially high resale prices in the United States. Indeed, the change in treatment of parallel imports sought by Vivitar threatens the viability not only of K mart, but of thousands of other retailers that depend upon the continued availability of brand-name products at competitive prices. A decision voiding the Customs Service Regulation at issue would deprive such retailers of an important source of supply which allows them to pursue their fundamental business strategy of meeting consumer needs through competitive pricing. If the regulation is declared void, American consumers will pay higher prices, and the innovative discount segment of the retail market place will be severely injured.

ARGUMENT

This Court should not grant the petition for a writ of certiorari. The decision of the Court of Appeals for the Federal Circuit presents no "important question of federal law which has not been, but should be settled by this Court." Supreme Court Rule 17.1(c). The Court of Appeals approved the Customs Service interpretation of Section 526(a) of the Tariff Act of 1930, 19 U.S.C. § 1526. Under both the Customs Service interpretation and the Court of Appeals interpretation of Section 526(a), there is no ban on parallel imports of genuine trademarked goods which United States trademark owners have permitted to be manufactured overseas.

In the past two years, a number of courts have sustained the Customs Service interpretation of Section 526. *See Coalition To Preserve The Integrity Of American Trademarks v. United States*, 598 F. Supp. 844 (D.D.C. 1984), *appeal pending*, No. 85-5890 (D.C. Cir.); *Olympus Corp. v. United States*, CV-84-0920 (E.D.N.Y. Aug. 22, 1985), *appeal pending*, No. 85-6282 (2d Cir.); *United States v. 89 Bottles of "Eau De Joy"*, C-82-6541 SC (N.D. Cal. Mar. 8, 1985); and *El Greco Leather Products Co.*

v. Shoe World, Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984). While the rationale of these district courts differs semantically from that of the United States Court of Appeals for the Federal Circuit, the net result is the same: All of the courts have sustained the Customs Service interpretation of Section 526.

A grant of certiorari to review a semantic difference between the Customs Service and the Court of Appeals interpretation of Section 526 would serve no useful purpose. The question of whether a court of appeals has authority to affirm a regulation on a different ground than that advanced by the agency is peripheral to the question of the permissibility of parallel imports under Section 526. This Court's consideration of the issue of whether parallel imports are permissible under Section 526 is premature before the Courts of Appeals for the District of Columbia and Second Circuits have completed their consideration of pending appeals which raise the same issue.

The Tariff Act of 1930, as illuminated by its legislative history and five decades of consistent agency interpretation, does not require the Customs Service to enforce an arrangement wherein Vivitar and its foreign affiliates and licensees divide up international markets to prevent and impair price competition within the United States. A reversal of the Court of Appeals holding would close the American market to price competition and would result in the transfer of millions of dollars from American consumers to foreign multinational enterprises, a result antithetical to public policy.

REASONS FOR DENYING THE WRIT

1. Whether the Court of Appeals has properly affirmed the Customs Service regulation on "a basis different than that offered by the agency" is hardly a worthy issue for consideration on certiorari. Pet. at 21.

The claimed disparity between the agency grounds for allowing genuine trademarked goods to enter the United

States and those espoused by the Court of Appeals for the Federal Circuit appears to be semantic rather than substantive. While the Court of Appeals majority opinion may well be criticized for its broad dicta,[3] the pivotal point is that both the agency and the Court of Appeals are in agreement that Section 526 of the Tariff Act of 1930 does not provide a basis for banning the importation of genuine trademarked merchandise. As Judge Davis said in his concurring opinion below:

> All that we *hold* in this case is that the Customs regulation is now valid as a Customs enforcement regulation.

761 F.2d at 1572; Pet. App. A, p. 100a.

2. Contrary to Vivitar's contention, the holding of the Court of Appeals is hardly "an invitation to administrative lawlessness which should not be permitted by this Court". Pet. at 21.

The effect of the ruling is merely to approve a regulation which has existed in one form or another for nearly fifty years.[4] While the regulatory language has changed

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[3] Judge Davis concurred in the result, but criticized the majority opinion for its broad dicta concerning the effect of the Customs Service regulation in litigation between private parties. According to Judge Davis, "it is needless and gratuitous for this court, in this international trade case coming from the CIT, to indulge in lengthy dicta bearing on the full scope of § 1526(a), *obiter dicta* which will not bind any court in a private suit but which simply tends to confuse the trademark bar." 761 F.2d at 1572; Pet. App. A, p. 99a.

[4] In 1936, the following provision was added to the Customs Service regulations:

> However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purpose of these regulations to copy or simulate such United States trade-mark or trade name if such foreign trade-

from time to time, "the policy of the Customs Service of excluding from protection foreign-produced merchandise bearing a genuine trademark has been long-standing and consistent." *Coalition To Preserve The Integrity of American Trademarks v. United States*, 598 F. Supp. at 852.[5]

The preservation of the status quo hardly entails a threat of "lawlessness" which warrants the grant of a writ of certiorari. Moreover, Vivitar can hardly claim to have been injured by the Court of Appeals decision, since the court merely affirmed regulations which were in effect at the time Vivitar chose to commit its manufacturing efforts to foreign subsidiaries and licensees.

3. Vivitar's argument that the Customs Service has never "claimed that it had the discretion to allow the entry into the United States of imported merchandise prohibited by the plain language of Section 526" appears to be inaccurate. Pet. at 19.

While the language of the regulations adopted by the Customs Service has differed slightly from time to time during the past fifty years, the regulations have always been to the effect that goods manufactured abroad under the authority of the United States trademark owner should not be barred from importation. There is nothing

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mark or trade name are owned by the same person, partnership, association, or corporation.

1 Fed. Reg. 1,725 (1936) (T.D. 48,537). Although the 1936 regulation is the first to mention an exception from Section 526 protection where the United States and foreign trademark holders were commonly owned, there is no evidence of a contrary Customs Service practice prior to that date.

[5] According to John F. Atwood, a Customs law specialist employed by the Customs Service during the late 1960s, the Customs Service has "always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark." *See* J. Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 Trade-Mark Rep. 301, 307 (1969).

in any of the regulatory language which would exclude agency "discretion" as a basis for the current regulation.

4. The statutory grant of authority to the Customs Service provides the agency with broad discretion in adopting regulations.

The agency's discretionary authority derives from the general mandate to the Secretary of the Treasury in 19 U.S.C. § 66, which appears to date back to 1820 in substantially the same form, delegating to the Secretary of the Treasury the power to prescribe the "rules and regulations . . . as may be necessary for the proper execution of the [Customs] law." 19 U.S.C. § 66. With specific regard to Chapter 4 of Title 19, *i.e.*, the Tariff Act of 1930, "the Secretary of the Treasury is authorized to make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. § 1624.[6] Such Treasury Department rules have been held to have the force and effect of substantive law. *Tex Mex Brick & Import Co. v. United States*, 305 F. Supp. 927 (Cust. Ct. 1969), *aff'd*, 449 F.2d 1398 (C.C.P.A. 1971).[7]

This Court has routinely upheld regulations promulgated pursuant to such general delegations of authority. In *Mourning v. Family Publications Service, Inc.*, 411 U.S. 356 (1973), the Supreme Court sustained the authority of the Federal Reserve Board to promulgate rules under the Truth-in-Lending Act. The Court emphasized:

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[6] In promulgating 19 C.F.R. § 133.21, the Customs Service properly followed the rulemaking procedures required by the Administrative Procedure Act. 5 U.S.C. § 701 *et seq.* On December 19, 1970, the Customs Service issued a Notice of Proposed Rulemaking (35 Fed. Reg. 19,269) and on October 3, 1972, it published a Final Notice (37 Fed. Reg. 20,677) adopting what is now 19 C.F.R. § 133.21.

[7] It is this discretion which distinguishes the delegation of regulatory authority from the impoundment cases on which Vivitar relies, where the legislature had appropriated precise funds for a specific purpose.

> Where the empowering provision of a statute states simply that the agency may "*make . . . such rules and regulations as may be necessary to carry out the provisions of this Act,*" we have held that the validity of a regulation promulgated thereunder will be sustained so long as it is "reasonably related to the purposes of the enabling legislation."

411 U.S. at 369 (citations omitted) (emphasis added).[8]

The day to day operations of agencies, pursuant to such broad rule-making authority, do not pose such novel issues as to warrant the grant of certiorari. Even when agencies have made unusual use of such rulemaking power, certiorari has been denied. For example, in *National Petroleum Refiners Association v. FTC*, 482 F.2d 672 (D.C. Cir. 1973), *cert. denied*, 415 U.S. 951 (1974), the United States Court of Appeals for the District of Columbia Circuit affirmed the novel use of the Federal Trade Commission rulemaking authority for promulgating rules with the effect of substantive law. Although the FTC had never before claimed or exercised such power, and although no court had ever before approved the FTC claim of such power, this Court denied certiorari.

5. There can be no question that 19 C.F.R. § 133.21 is reasonably related to the purpose of the enabling legislation.

As conceded by Vivitar:

> The decision by the Court of Appeals in *A. Bourjois & Co., Inc. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923), was the catalyst prompting the enactment of Section 526.

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[8] The Court has similarly upheld substantive regulations adopted by other agencies in the exercise of their discretion pursuant to delegations of authority of varying degrees of specificity. *American Trucking Ass'n v. United States*, 344 U.S. 298, 312 (1953); *FPC v. Texaco, Inc.*, 377 U.S. 33 (1964); *United States v. Storer Broadcasting Co.*, 351 U.S. 192 (1956); *National Broadcasting Co. v. United States*, 319 U.S. 190 (1943).

Pet. at 14 n. 4. In *Katzel*, the Second Circuit held that a third-party purchaser from a European company which had conveyed the entirety of its trademark rights to an independent American company could nonetheless continue to import trademarked goods into the United States. The legislative history of Section 526 demonstrates that in 1922 Congress wanted specifically to protect the contractual property rights of American citizens who, as in *Katzel*, had purchased United States trademark rights from independent foreign companies in arm's length transactions. Thus, the floor debate in the Senate shows strong emphasis on "protecting the property rights of American citizens who have purchased foreign trademarks from foreigners". *See* remarks of Senator Sutherland, one of the sponsors of the bill, 62 Cong. Rec. S. 11,603 (daily ed. Aug. 19, 1922). And, as another sponsor, Senator McCumber, stated, "if there has been no transfer of trademark, that presents an entirely different question." 62 Cong. Rec. S. 11,605 (daily ed. Aug. 19, 1922). Obviously, Congress intended to confine the exclusion of foreign goods to those cases where a foreign manufacturer had sold its trademark rights to an independent American corporation. The regulation at issue clearly carries out this Congressional intent.[9]

6. If certiorari is granted, a principal question on review will be whether the regulation at issue is reasonably related to Section 526.

In determining such an issue the Court will normally review the legislative history, as well as the language of

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[9] While the majority opinion in the Federal Circuit found that there were other purposes for the enactment of Section 526, the court failed to cite any substantial purpose other than that enunciated by the sponsors. Nevertheless, the Court of Appeals obviously held that the regulation at issue was "a reasonable exercise of administratively initiated enforcement" of Section 526. 761 F.2d at 1571. Pet. App. A, p. 90a.

the statute.[10] There is nothing new or novel about the review process which this Court follows in determining whether a paritcular regulation has such a reasonable relation to enabling legislation. The Court of Appeals gave extensive consideration to the language and history of the Act in reaching its conclusion. Under such circumstances, it appears unlikely that any major public policy would be served by reviewing the completeness of its evaluation process.

7. There is no conflict among the circuits as to the validity of 19 C.F.R. § 133.21.

No court of appeals has held that Section 526 bars the importation of genuine trademarked goods. The district courts considering the subject have upheld the validity of 19 C.F.R. § 133.21. *Coalition to Preserve the Integrity of American Trademarke v. United States*, 598 F. Supp. 844 (D.D.C. 1984); *Olympus Corp. v. United States*, CV-84-0920 (Aug. 22, 1985 E.D.N.Y.).[11] The only disparity between these decisions and the ruling of the Federal Circuit below lies in the fact that the Federal Circuit was a good deal more charitable to some of the subsidiary arguments advanced by Vivitar than were the district courts in other circuits. These district courts held that the regulation in question was supported by

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[10] *Bob Jones University v. United States*, 461 U.S. 574 (1983); *Church of the Holy Trinity v. United States*, 143 U.S. 457, 459 (1892); *Chevron, U.S.A., Inc. v. National Resources Defense Council, Inc.*, 104 S. Ct. 1778 (1984). *See also Sedima, S.P.R.L. v. Imrex Co.*, 105 S. Ct. 3275 (1985), where this Court gave heavy weight to legislative history.

[11] The decision in *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984), heavily relied upon by Vivitar, loses credibility by virtue of the fact that the court did not attempt to address the reasonableness of the Customs Service Regulation in light of the legislative history of Section 526. The question of whether "Customs exceeded its authority" was one which the court felt "need not be decided here." 589 F. Supp. at 1177. Accordingly, the decision lacks persuasiveness.

the legislative history of the Act, by a consistent and long standing administrative interpretation of the Act, and by Congressional ratification. In short, these opinions are even more adverse to Vivitar than the opinion of the Court of Appeals of the Federal Circuit in this case. *A fortiori*, there is no conflict in these opinions which would warrant the grant of certiorari in the instant case. Indeed, a grant of certiorari in the instant case would appear to be premature, since no other court of appeals has yet ruled on these issues.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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